

Message Text

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SUBJ: FINMIN REPORTS ON THE ECONOMY

1. SUMMARY. THE FINMIN GAVE A REPORT ON THE COLOMBIAN ECONOMY IN WHICH HE SAID THE WORST IS OVER AND THINGS SHOULD IMPROVE FROM THE SECOND HALF OF THE YEAR. REAL ECONOMIC GROWTH, WHILE REDUCED, CONTINUES AND THE RATE OF INFLATION HAS STARTED TO COME DOWN. MONEY SUPPLY GROWTH IS BEING CONTROLLED WHILE BANK CREDIT CONTINUES TO GROW. IN FOREIGN TRADE COFFEE EXPORTS ARE DOWN BUT EXPORTS OF OTHER GOODS ARE HEALTHY. IMPORTS CONTINUE AT A HIGH LEVEL, CAUSING SOME DECLINE IN RESERVES. BUT COLOMBIA IS NOT, ACCORDING TO THE MIN, IN A RECESSION AND THE COUNTRY HAS BY NOW WEATHERED THE ECONOMIC ADJUSTMENTS INTRODUCED LAST YEAR BY THE LOPEZ GOVT AS WELL AS THE EFFECTS OF ADVERSE INTERNATIONAL TRENDS. BEFORE THE YEAR IS UP, THE GOVT HOPES TO INITIATE A VIGOROUS DEVELOPMENT EFFORT WITH SIGNIFICANT SOCIAL CONTENT. MOST OF WHAT THE MIN SAID IS TRUE, BUT THERE ARE SOME FACTORS HE NEGLECTED TO MENTION AND THE OUTLOOK IS NOT NECESSARILY QUITE AS CERTAIN AS HE INDICATED. END SUMMARY.

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2. FINMIN RODRIGO BOTERO BEGAN HIS RADIO-TV ANALYSIS OF THE COLOMBIAN ECONOMY BY DISCUSSING THE COUNTRY'S ECONOMIC GROWTH. REAL GROWTH OF GDP IN 74 WAS 6.1 PERCENT, HE SAID AND FOR 75 IT IS EXPECTED TO BE BETWEEN 4 AND 5 PERCENT. THEREFORE HE ARGUED, COLOMBIA CANNOT ACCURATELY BE SAID TO BE IN A RECESSION, AS SOME HAVE CHARGED, SINCE RECESSION APPLIES TO NEGATIVE GROWTH FOR SEVERAL CONSECUTIVE MONTHS. THE RATE OF PRICE INCREASES HAS BEGUN TO DECLINE, HE NOTED, REPEATING THE GOAL OF REDUCING THE RATE TO 20 PERCENT FOR 75 AND TO 10 PERCENT BY 77. FOOD PRICES, WHICH HAVE LED OTHER PRICES, ROSE BY ONLY 14 PERCENT DURING THE FIRST FOUR MONTHS OF THIS YEAR COMPARED TO 16PERCENT FOR THE COMPARABLE PERIOD IN 74. USING GRAPHS TO SHOW THE CLOSE CORRELATION IN COLOMBIA BETWEEN INCREASES IN THE MONEY SUPPLY AND IN THE COST OF LIVING, HE POINTED OUT THAT THE MONEY SUPPLY GREW BY LESS THAN 20 PERCENT IN 74 COMPARED TO 28 PERCENT IN 73, AND PREDICTED A FURTHER DECLINE IN THE RATE OF GROWTH THIS YEAR. FURTHERMORE THE INTEREST RATE STRUCTURE HAS BEEN MADE RELATIVELY UNIFORM, HE SAID, WITH RATES ON CERTIFICATES OF DEPOSIT AND SAVINGS ACCOUNTS INCREASED WHILE THE RETURN ON INFLATION-CORRECTED SAVINGS AND LOAN ACCOUNTS WAS REDUCED. THIS HAS ALLOWED THE BANKING SECTOR TO MAINTAIN A GROWING SUPPLY OF CREDIT EVEN WHILE MONEY SUPPLY GROWTH IS DECELERATING.

3. TURNING TO THE FOREIGN SECTOR, MIN BOTERO ATTRIBUTED THE SHARP DECLINE IN COFFEE EXPORTS (DOWN ONE MILLION BAGS DURING THE FIRST HALF OF THE CURRENT OCT-SEPT COFFEE YEAR FROM A YEAR EARLIER) TO STRICT COMPLIANCE WITH COLOMBIA'S COMMITMENTS TO OTHER PRODUCERS TO LIMIT EXPORTS. UNFORTUNATELY, HE SAID, OTHERS HAVE NOT COMPLIED SO RIGOROUSLY SO THAT EXCESS SUPPLIES ON THE MARKET HAVE DRIVEN PRICES DOWN EVEN WHILE COLOMBIA'S EXPORTS DECLINE. AS FOR NON-TRADITIONAL EXPORTS (ALL EXCEPT COFFEE AND PETROLEUM), REGISTRATION OF EXPORTS SO FAR IN 75 IS DOWN FROM THE FIRST MONTHS OF 74 BUT FOREIGN EXCHANGE EARNINGS ARE UP. COLOMBIA'S EXPORT PATTERN IS CHANGING IN TWO IMPORTANT WAYS, HE ADDED. IN 74 MANUFACTURERS ACCOUNTED FOR 30PERCENT OF TOTAL EXPORTS, COMPARED TO ONLY 13 PERCENT AS RECENTLY AS 70. AND IN 74 EXPORTS TO LA CAME TO 27 PERCENT OF THE TOTAL, UP FROM INSIGNIFICANT FIGURES A FEW YEARS AGO. IMPORT REGISTRATIONS ARE CONTINUING WITHIN THE GOC'S TARGET OF US \$125 MILLION PER MONTH, WHILE HIGH FOREIGN EXCHANGE OUTFLOWS REFLECT HIGHER REGISTRATION LEVELS IN CERTAIN LIMITED OFFICIAL USE

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MONTHS IN 74. THUS NET FOREIGN RESERVES ARE DOWN TO US\$345 MILLION. THE GOVT NEVERTHELESS CONSIDERS RESERVES ADEQUATE, PARTLY BECAUSE GOLD RESERVES ARE VALUED AT ONLY \$42 AN OUNCE RATHER THAN AT THEIR MARKET VALUE OF \$160/OZ.

4. ON THE FISCAL SITUATION THE MIN MERELY NOTED THAT COLLECTIONS FOR THE FIRST FOUR MONTHS OF 75 ARE 37 PERCENT GREATER THAN A YEAR AGO, MAINLY BECAUSE OF INCREASED SALES TAX RECEIPTS,

WHILE ON THE EXPENDITURE SIDE TRANSFERS FROM THE CENTRAL GOVT TO STATE AND LOCAL GOVTS ARE ON THE RISE.

5. COLOMBIA HAS GONE THROUGH A PERIOD OF TRANSITION, HE SAID, ADJUSTING TO BOTH THE ECONOMIC REFORMS INSTITUTED BY THE LOPEZ GOVT AND ADVERSE INTERNATIONAL FACTORS. BUT THE WORST IS PAST AND HE IS CONFIDENT THAT THE SECOND HALF OF THE YEAR WILL BE BETTER AS THE INDUSTRIALIZED COUNTRIES REACTIVATE THEIR ECONOMIES, NORMALIZING THE SITUATION FOR COLOMBIAN EXPORTS AND THE PRICES OF RAW MATERIALS AND CAPITAL GOODS THAT COLOMBIA IMPORTS. HE HOPED THE GOVT COULD CONSOLIDATE ITS STABILIZATION EFFORT THIS YEAR AND BEGIN TO PUT INTO EFFECT ITS SOCIALLY-ORIENTED DEVELOPMENT PLANS.

6. COMMENT: AS FINMINS ARE LIKELY TO DO, MIN BOTERO PAINTED THE PICTURE AS BRIGHTLY AS POSSIBLE. HE DID NOT CALL ATTENTION TO THE SLUMP IN THE CONSTRUCTION INDUSTRY ASSOCIATED WITH INTEREST RATE REFORMS, OR TO SUPPOSEDLY GROWING UNEMPLOYMENT (THERE BEING NO RELIABLE FIGURES AVAILABLE). HIS EXPLANATION FOR FALLING COFFEE EXPORTS IS UNCONVINCING, AND IF REGISTRATION OF NON TRADITIONAL EXPORTS IS DOWN, AS HE SAID, THEN FOREIGN EXCHANGE RECEIPTS WILL DECLINE IN THE FUTURE. HE DID NOT MENTION CAPITAL FLOWS IN THE BALANCE OF PAYMENTS, WITH COLOMBIA TEMPORARILY EXPERIENCING A NET OUTFLOW FOR LACK OF DISBURSEMENTS BY THE LENDING AGENCIES. NOR DID HE MAKE ANY REF TO COLOMBIA'S PETROLEUM SITUATION, PER HAPS THE MOST DISTURBING PROBLEM IN SIGHT. YET WITH ALL THESE OMISSIONS HIS CONCLUSION SOUNDS REASONABLE. THE COLOMBIAN ECONOMY IS STILL GROWING, AND EVEN IF AN UPTURN DOES NOT OCCUR DURING THE REST OF THE YEAR, THERE ARE FEW WHO WOULD PREDICT A SERIOUS ECONOMIC DOWNTURN EITHER. VAKY

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